

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### March 2008: budgetary deficit of \$1.2 billion

There was a budgetary deficit of \$1.2 billion in March 2008, compared to a deficit of \$2.4 billion in March 2007. Budgetary revenues were up \$1.0 billion, or 5.2 per cent, largely reflecting gains in personal income tax revenues. Program expenses were relatively stable, as an increase in transfer payments was offset by a decrease in operating expenses of departments and agencies. Public debt charges decreased by \$0.1 billion.

### April 2007 to March 2008: budgetary surplus of \$10.2 billion after cost of measures

For the April 2007 to March 2008 period, the budgetary surplus is estimated at \$11.7 billion, down \$1.2 billion from the \$12.9-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by \$10.6 billion, or 4.6 per cent, driven by gains in income tax revenues and other revenues. The results to date reflect the impact of tax relief measures introduced in the October 2007 Economic Statement. These measures consist of the 1-percentage-point reduction in the goods and services tax (GST) rate effective January 1, 2008, and the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to \$9,600, both retroactive to January 1, 2007. Program expenses were up \$12.5 billion, or 6.8 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$0.6 billion, reflecting reductions in market debt.

The April 2007 to March 2008 monthly results are not the final results for the year as a whole. They do not reflect \$1.5 billion in 2007–08 measures announced earlier this year, including the Public Transit Capital Trust 2008 and the Police Officers Recruitment Fund. The cost of these measures will be reflected in the end-of-year supplementary period. Deducting the cost of these measures from the \$11.7-billion year-to-date surplus would yield a surplus of \$10.2 billion. In addition, the year-to-date results do not reflect the regular end-of-year adjustments, which include final tax accrual adjustments as well as estimates of the cost of liabilities incurred during the fiscal year but for which no payment has yet been made.

A discussion of the March results and the budget forecast for 2007–08 is provided later in this document.

### *Note to readers:*

*Other revenues and operating expenses in March 2007 have been restated to be consistent with the accounting treatment of these items in March 2008 and in the Public Accounts, as discussed in further detail below.*



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## March 2008

There was a budgetary deficit of \$1.2 billion in March 2008, compared to a \$2.4-billion deficit in March 2007.

Budgetary revenues rose \$1.0 billion, or 5.2 per cent, to \$20.8 billion.

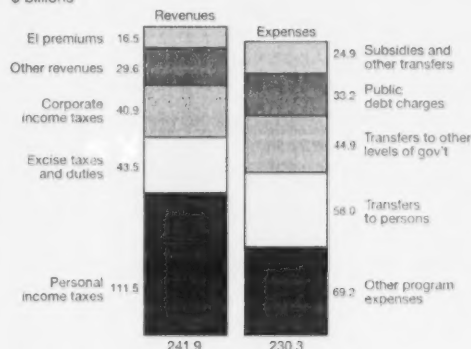
- Personal income tax revenues rose \$1.2 billion, or 12.8 per cent, largely because 2008 collections include two more large processing days than in 2007.
- Corporate income tax revenues were down \$0.2 billion, or 3.5 per cent, reflecting lower year-end settlement payments than last year.
- Other income tax revenues—withholdings from non-residents—rose \$34 million, or 9.9 per cent.
- Excise taxes and duties were down \$15 million, or 0.6 per cent, as lower customs import duties, down \$108 million, and lower sales and excise tax revenues, down \$49 million, were only partially offset by an increase in GST revenues of \$136 million, or 9.0 per cent. GST revenues can be volatile on a monthly basis. Revenues from the Air Travellers Security Charge were \$6 million higher.
- Employment Insurance (EI) premium revenues were down 0.3 per cent, reflecting the decline in the premium rate from \$1.80 to \$1.73 per \$100 of insurable earnings, effective January 1, 2008.
- Other revenues, which include net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments and foreign exchange revenues, were virtually unchanged, rising 0.2 per cent. As noted above, other revenues in March 2007 have been restated in order to provide a measure of external revenues that is more consistent with the measure used in March 2008 and in the Public Accounts. The restatement lowered other revenues in March 2007 by \$1.0 billion.

At \$19.4 billion in March 2008, program expenses were relatively stable compared to March 2007, reflecting an increase in transfer payments and an offsetting decrease in operating expenses of departments and agencies.

## Revenues and expenses

(April 2007 to March 2008)

\$ billions



Transfer payments were up \$1.3 billion, or 11.1 per cent.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by 2.5 per cent. Elderly benefits increased by 3.7 per cent and EI benefits by 1.7 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), remained stable.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$2.0 billion, or 73.1 per cent, reflecting Budget 2007 measures and the new Community Development Trust announced in Budget 2008.
- Subsidies and other transfers were down \$0.8 billion, or 21.6 per cent.

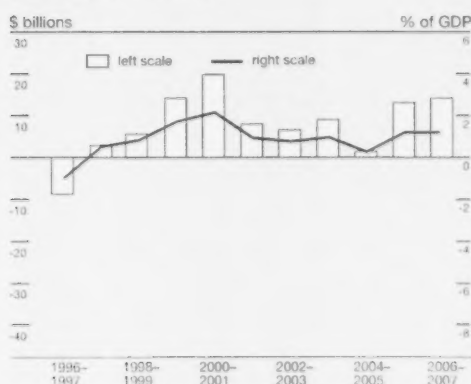
Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses decreased by \$1.3 billion, or 16.5 per cent, between March 2007 and March 2008, largely due to the inclusion of an annual adjustment to reflect the creditworthiness of tax receivables in the March results. This change had a significantly larger effect on March 2007 expenses, raising them by \$1.1 billion, than it did on the March 2008 results.

Public debt charges decreased by \$0.1 billion, or 5.1 per cent.

## April 2007 to March 2008

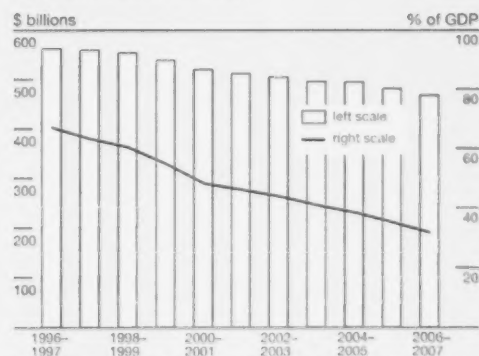
For the April 2007 to March 2008 period, there was a budgetary surplus of \$11.7 billion, down \$1.2 billion from the \$12.9-billion surplus reported during the same period of 2006-07.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Budgetary revenues increased by \$10.6 billion, or 4.6 per cent, to \$241.9 billion.

- Personal income tax revenues increased by \$2.1 billion, or only 1.9 per cent, reflecting \$3.3 billion in tax relief measures announced in the October 2007 Economic Statement.
- Corporate income tax revenues were up \$4.5 billion, or 12.3 per cent.
- Other income tax revenues rose \$0.2 billion, or 3.4 per cent.
- Excise taxes and duties declined by \$76 million, or 0.2 per cent. GST revenues rose by only \$61 million, or 0.2 per cent, reflecting the impact of the two reductions in the GST rate, from 7 per cent to 6 per cent effective July 1, 2006, and the subsequent reduction to 5 per cent effective January 1, 2008. Customs import duties increased by \$0.1 billion, sales and excise tax revenues were down \$0.3 billion, and revenues from the Air Travellers Security Charge increased by \$36 million.
- EI premium revenues were down \$0.3 billion, or 2.0 per cent, reflecting the declines in the premium rate to \$1.80 per \$100 of insurable earnings effective January 1, 2007, and to \$1.73 effective January 1, 2008.
- Other revenues rose \$4.3 billion, or 21.7 per cent, boosted by a gain from the sale of seven federal office properties in 2007. The increase also reflects higher receipts under the Atlantic Offshore Revenue Accounts, due to strong growth in offshore production and oil prices

to date in 2007–08. This revenue is transferred to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords, such that there is no net impact on the budgetary balance.

Program expenses for April 2007 to March 2008 were \$197.1 billion, up \$12.5 billion, or 6.8 per cent, from the same period of 2006–07, reflecting an increase in transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments increased by \$9.4 billion, or 7.9 per cent.

- Major transfers to persons were up \$2.1 billion, or 3.8 per cent. Elderly benefits increased by 4.4 per cent and EI benefits by 0.8 per cent. Children's benefits were up \$0.7 billion, as transfers under the UCCB began part way through the 2006–07 fiscal year, in July 2006.
- Major transfers to other levels of government were up \$5.2 billion, or 13.2 per cent, reflecting legislated growth in the Canada Health Transfer, as well as increases to the Canada Social Transfer and Equalization introduced in Budget 2007 as part of the Government's package to restore fiscal balance. The increase also reflects the Community Development Trust introduced in Budget 2008.
- Subsidies and other transfers were up \$2.1 billion, or 9.1 per cent, mainly reflecting increases in payments related to the historic investment in infrastructure announced in Budget 2007 and higher transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords.

Other program expenses increased by \$3.1 billion, or 4.6 per cent.

Public debt charges decreased by \$0.6 billion, or 1.8 per cent, largely reflecting lower unmatured debt levels.

### **Financial source of \$14.3 billion for April 2007 to March 2008**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$11.7 billion and a source of \$2.6 billion from non-budgetary transactions, there was a financial source of \$14.3 billion for April 2007 to March 2008, compared to a financial source of \$10.6 billion in the same period of 2006–07.

### **Net financing activities down \$24.2 billion**

The Government used this financial source of \$14.3 billion and a reduction in its cash balances of \$10.0 billion to reduce its market debt by \$24.2 billion by the end of March 2008. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Amendments made to the Financial Administration Act in 2007 regarding the Government's borrowing authority, which provide increased flexibility to meet financial requirements, along with the more frequent use of short-dated borrowing instruments, will facilitate carrying lower cash balances at fiscal year-end. Cash balances at the end of March 2008 stood at \$11.2 billion, \$10.0 billion below their level at the end of March 2007.

### **Quarterly update of the fiscal outlook for 2007–08**

The monthly results for the 12-month period ended March 2008 are generally consistent with the projections presented in Budget 2008, which were prepared based on monthly financial information through December 2007.

- Through the end of March 2008, revenues and program expenses are slightly lower than projected in the budget. However, program expenses to date do not reflect \$1.5 billion of spending pertaining to 2007–08 announced in Budget 2008, including the \$400-million Police Officers Recruitment Fund and the \$500-million Public Transit Capital Trust 2008. The cost of these measures will be reflected in the supplementary period, subject to the passage of implementing legislation. Adjusting for the cost of these measures brings the April 2007 to March 2008 surplus to \$10.2 billion. This is equivalent to the \$10.2-billion surplus projected in Budget 2008 for 2007–08.
- The year-to-date results do not reflect a number of other significant adjustments to revenues and expenses that will be made once further information becomes available.
  - For example, the monthly estimates of personal income taxes are based on source deductions with estimates of tax accruals. The final accruals will reflect assessments of tax returns for 2007 now underway at the Canada Revenue Agency. The final personal income tax outcome can vary significantly from the monthly estimates due to factors such as the magnitude of Registered Retirement Savings Plan contributions and variations in capital gains and losses reported at tax filing.
  - Similarly, while the monthly results attempt to reflect the most up-to-date information on the Government's legal and environmental liabilities, provisions for guarantees, and allowances for valuation of loans, investments and advances, changes to estimated assets and liabilities are made up to the time that the financial statements are closed, normally in late August.



Table 1

**Summary statement of transactions**

	March		April to March	
	2007	2008	2006-07	2007-08
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	19,765	20,787	231,300	241,942
Expenses				
Program expenses	-19,386	-19,360	-184,599	-197,061
Public debt charges	-2,811	-2,668	-33,841	-33,229
Budgetary balance (deficit/surplus)	-2,432	-1,241	12,860	11,652
<b>Non-budgetary transactions</b>	4,637	-184	-2,246	2,633
<b>Financial source/requirement</b>	2,205	-1,425	10,614	14,285
<b>Net change in financing activities</b>	10,084	7,663	-7,361	-24,246
<b>Net change in cash balances</b>	12,289	6,238	3,253	-9,961
<b>Cash balance at end of period</b>			21,210	11,243

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

**Budgetary revenues**

	March			April to March		
	2007	2008	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	9,131	10,298	12.8	109,374	111,484	1.9
Corporate income tax	4,607	4,445	-3.5	36,434	40,924	12.3
Other income tax	343	377	9.9	5,485	5,672	3.4
Total income tax	14,081	15,120	7.4	151,293	158,080	4.5
Excise taxes and duties						
Goods and services tax	1,505	1,641	9.0	29,690	29,751	0.2
Customs import duties	295	187	-36.6	3,605	3,729	3.4
Sales and excise taxes	720	671	-6.8	9,932	9,635	-3.0
Air Travellers Security Charge	30	36	20.0	356	392	10.1
Total excise taxes and duties	2,550	2,535	-0.6	43,583	43,507	-0.2
Total tax revenues	16,631	17,655	6.2	194,876	201,587	3.4
<b>Employment Insurance premiums</b>	1,800	1,795	-0.3	16,807	16,476	-2.0
<b>Other revenues</b>	1,334	1,337	0.2	19,617	23,879	21.7
<b>Total budgetary revenues</b>	19,765	20,787	5.2	231,300	241,942	4.6

Note: Totals may not add due to rounding.

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Table 3

## Budgetary expenses

	March			April to March		
	2007	2008	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,604	2,700	3.7	30,530	31,879	4.4
Employment Insurance benefits	1,274	1,296	1.7	14,083	14,192	0.8
Children's benefits	1,022	1,027	0.5	11,287	11,939	5.8
Total	4,900	5,023	2.5	55,900	58,010	3.8
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,806	7.6	20,140	21,474	6.6
Canada Social Transfer	708	829	17.1	8,500	9,840	15.8
Total	2,386	2,635	10.4	28,640	31,314	9.3
Fiscal transfers	761	976	28.3	12,979	14,541	12.0
Community Development Trust	0	1,000	n/a	0	1,000	n/a
Canada cities and communities	11	30	172.7	590	778	31.9
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-443	58	-113.1	-3,177	-2,720	-14.4
Total	2,715	4,699	73.1	39,682	44,913	13.2
Subsidies and other transfers						
Agriculture and Agri-Food	596	113	-81.0	3,012	2,261	-24.9
Foreign Affairs and International Trade	1,105	853	-22.8	3,804	3,365	-11.5
Health	252	353	40.1	1,986	2,198	10.7
Human Resources and Social Development	224	182	-18.8	1,733	1,820	5.0
Indian Affairs and Northern Development	482	387	-19.7	4,728	4,789	1.3
Industry	128	591	361.7	1,987	2,346	18.1
Other	1,064	542	-49.1	5,603	8,143	45.3
Total	3,851	3,021	-21.6	22,853	24,922	9.1
Total transfer payments	11,466	12,743	11.1	118,435	127,845	7.9
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	0	59	n/a	1,114	1,104	-0.9
Canada Mortgage and Housing Corporation	181	169	-6.6	2,073	2,018	-2.7
Other	285	288	1.1	3,380	3,861	14.2
Total	466	516	10.7	6,567	6,983	6.3
Defence	1,456	1,609	10.5	15,850	17,671	11.5
All other departments and agencies	5,998	4,492	-25.1	43,747	44,562	1.9
Total other program expenses	7,920	6,617	-16.5	66,164	69,216	4.6
<b>Total program expenses</b>	19,386	19,360	-0.1	184,599	197,061	6.8
<b>Public debt charges</b>	2,811	2,668	-5.1	33,841	33,229	-1.8
<b>Total budgetary expenses</b>	22,197	22,028	-0.8	218,440	230,290	5.4

Note: Totals may not add due to rounding.



Table 4

**The budgetary balance and financial source/requirement**

	March		April to March	
	2007	2008	2006-07	2007-08
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-2,432	-1,241	12,860	11,652
<b>Non-budgetary transactions</b>				
Capital investing activities	-766	-617	-2,962	-2,671
Other investing activities	181	-721	-795	-5,299
Pension and other accounts	376	440	4,684	5,985
Other activities				
Accounts payable, receivables, accruals and allowances	7,738	1,793	-2,770	399
Foreign exchange activities	-3,048	-1,311	-3,352	1,879
Amortization of tangible capital assets	156	232	2,949	2,340
Total other activities	4,846	714	-3,173	4,618
<b>Total non-budgetary transactions</b>	4,637	-184	-2,246	2,633
<b>Net financial source/requirement</b>	2,205	-1,425	10,614	14,285

Note: Totals may not add due to rounding.

Table 5

**Financial source/requirement and net financing activities**

	March		April to March	
	2007	2008	2006-07	2007-08
	(\$ millions)			
<b>Net financial source/requirement</b>	2,205	-1,425	10,614	14,285
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	308	-759	-3,913	-4,107
Treasury bills	10,100	6,100	2,500	-17,100
Canada Savings Bonds	-176	75	-2,259	-1,995
Other	-187	-1	-1,360	-700
Total	10,045	5,415	-5,032	-23,902
Foreign currency borrowings	6	-31	-3,712	-875
Total	10,051	5,384	-8,744	-24,777
Cross-currency swap revaluation	-306	2,161	1,168	-329
Unamortized discounts on debt issues	167	127	121	446
Obligations related to capital leases	172	-9	94	414
<b>Net change in financing activities</b>	10,084	7,663	-7,361	-24,246
<b>Change in cash balance</b>	12,289	6,238	3,253	-9,961

Note: Totals may not add due to rounding.

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2007	March 31, 2008	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	106,511	102,942	-3,569
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	253,375	-4,107
Treasury bills	134,074	116,974	-17,100
Canada Savings Bonds	15,175	13,180	-1,995
Other	1,743	1,043	-700
Subtotal	408,474	384,572	-23,902
Payable in foreign currencies	10,372	9,497	-875
Cross-currency swap revaluation account	-1,091	-1,420	-329
Unamortized discounts and premiums on market debt	-6,659	-6,213	446
Obligations related to capital leases	3,096	3,510	414
Total unamatured debt	414,192	389,947	-24,246
Pension and other accounts			
Public sector pensions	134,726	137,509	2,783
Other employee and veteran future benefits	45,123	47,723	2,600
Other pension and other accounts	5,211	5,814	603
Total pension and other accounts	185,060	191,045	5,985
Total interest-bearing debt	599,252	580,992	-18,260
<b>Total liabilities</b>	<b>705,763</b>	<b>683,934</b>	<b>-21,830</b>
<b>Financial assets</b>			
Cash and accounts receivable	92,586	78,657	-13,929
Foreign exchange accounts	44,178	42,299	-1,879
Loans, investments and advances (net of allowances)	45,094	50,393	5,299
<b>Total financial assets</b>	<b>181,858</b>	<b>171,349</b>	<b>-10,509</b>
<b>Net debt</b>	<b>523,905</b>	<b>512,585</b>	<b>-11,320</b>
<b>Non-financial assets</b>	<b>56,637</b>	<b>56,968</b>	<b>331</b>
<b>Federal debt (accumulated deficit)</b>	<b>467,268</b>	<b>455,617</b>	<b>-11,652</b>

Note: Totals may not add due to rounding.



